

# Carbon Market Watch recommendations for Article 6 of the Paris Agreement

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Carbon Market Watch welcomes the opportunity to provide input to the discussions on matters relating to Article 6 of the Paris Agreement.

Years of stalled negotiations leading up to Paris Agreement unexpectedly delivered a strong provision for markets in the Agreement's Article 6, alongside provisions for non-market approaches. Now, in elaborating the rules, modalities, and procedures for Article 6, it is imperative that Parties learn from past experiences with international climate cooperation, especially the Kyoto Protocol, and integrate provisions to ensure environmental integrity, foster sustainable development, and protect human rights in the future international market regime.

The Paris Agreement creates three different frameworks: one for cooperative approaches in the implementation of NDC's; one for a new "mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development" (SDM), and one framework for non-market approaches to sustainable development.

A clear overall structure for how these provisions are covered by the common transparency regime in Article 13 and how they relate to each other will be essential.

In elaborating this overall structure, it will be important that one provision does not undermine others and that all provisions will be equally robust. Furthermore, while the framework for non-market approaches does not imply international transfer of mitigation outcomes, it is important to put in place safeguards for transparency and international oversight, in order to promote sustainable development and to uphold human rights.

## **Cooperative approaches (Art. 6 (1-3))**

- **Establish robust rules for linking Emission Trading Systems**
- **Establish robust accounting rules to prevent double counting and generation of future "hot air"**
- **Ensure transparency and good governance**
- **Ensure social and environmental integrity**

## **SDM (Art.6 (4-7))**

- **Design the SDM as a tool for results based finance**
- **Ensure environmental integrity, contribute to transformational change, and avoid perverse incentives that undermine ambition**
- **Define, monitor, report and verify real, measurable and long-term sustainable development and mitigation benefits**
- **Establish a robust SDM oversight body**
- **Establish an institutional grievance process**

- **Ensure effective public and local stakeholder participation**
- **Adapt, reform and build on beneficial existing CDM infrastructure**

### **Framework for non-market mechanisms (Art. 6 (8-9))**

- **Ensure transparency and good governance**
- **Ensure social and environmental integrity**
- **Ensure contribution to sustainable development**
- **Uphold human rights**

## COOPERATIVE APPROACHES

In the Paris Agreement, Parties may “choose to pursue voluntary cooperation in the implementation of their nationally determined contributions.” So called cooperative approaches allow countries to use and transfer “international mitigation outcomes towards nationally determined contributions”<sup>1</sup> to allow for higher ambition. This opens the door to the linking of Emissions Trading Systems.

The Paris Agreement furthermore specifies that these cooperative approaches shall “promote sustainable development and ensure environmental integrity and transparency, including governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting.”<sup>2</sup> Robust accounting rules and avoidance of double counting will be crucial to ensure environmental integrity. International public scrutiny of such transfers is important to ensure they do not undermine the objectives of the Convention and in order to avoid “hot air” trading of bogus pollution permits.

The Agreement also obliges countries to promote environmental integrity, which means that the markets will have to consider wider social and environmental factors other than just the amount of carbon being traded. Although not clearly provided for in the text, it is important that the principle of complementarity is ensured: all Parties should emphasize domestic emission reductions instead of simply buying compliance with their NDCs.

- **Establish robust rules for international transfers of mitigation outcomes**
- **Establish robust accounting rules to prevent double counting and prevent trading future “hot air”**
- **Ensure transparency and good governance**
- **Ensure social and environmental integrity**
- **Enshrine supplementary**
- **Uphold human rights by providing for transparency and public oversight and participation**

## THE SUSTAINABLE DEVELOPMENT MECHANISM (SDM)

The Paris climate deal established a new “mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development”<sup>3</sup>, in short the Sustainable Development Mechanism or SDM. The Parties should move quickly to ensure a smooth transition to the SDM to replace Kyoto’s flexible mechanisms the CDM

<sup>1</sup> Paris Agreement, Art. 6(1)

<sup>2</sup> Paris Agreement, Art. 6(2)

<sup>3</sup> Paris Agreement, Art. 6(4)

and JI. At the same time, the new system must be improved particularly with regard to protecting human rights, developing effective criteria to evaluate co-benefits and to promote sustainable development. The SDM must also use a share of the proceeds to assist vulnerable countries with financing adaptation measures.

Like the CDM, the SDM is intended not only to promote the mitigation of greenhouse gas emissions but also to foster sustainable development.<sup>4</sup> Unlike the CDM, the SDM is expected to be wider in scope with respect to its accessibility to implementing Parties: as all countries make contributions, so too will all countries be able to generate and/or use SDM units.

The SDM modalities and procedures must address a number of elements including how to assess sustainable development outcomes; how to deliver net mitigation; how to move beyond projects to broader policies and measures; and how to avoid double counting.<sup>5</sup> From the CDM experience, additionality and perverse incentives for present and future climate policy making are some of the largest challenges. In addition, it will be essential to reflect on the need for transparent governance and robust and verifiable accounting.

Further, it is an imperative to include strong provisions for the social implications of climate mitigation projects. The preambular reference to human rights in the Paris Agreement sets the foundation for the SDM to be accountable for human rights obligations, reminding Parties that they must satisfy their human rights obligations as they move forward to develop and implement the sustainable development mechanism. The Paris Agreement's accompanying COP decision recognizes the significance of building on the experiences gained and lessons learned from existing mechanisms and approaches adopted under the Convention.<sup>6</sup> To prevent repeating the same mistakes and to help ensure the SDM's success, the Parties must take human rights considerations into account as they develop the modalities and procedures.

- **Design the SDM as a tool for results based finance**
- **Ensure environmental integrity, contribute to transformational change, and avoid perverse incentives that undermine ambition**
- **Define, monitor, report and verify real, measurable and long-term sustainable development and mitigation benefits**
- **Establish a robust SDM oversight body**
- **Establish an institutional SDM grievance process**
- **Ensure effective public and local stakeholder participation**
- **Adapt, reform and build on beneficial existing CDM infrastructure**

## FRAMEWORK FOR NON-MARKET MECHANISMS

The third framework included in Article 6 is the “integrated, holistic and balanced non-market approaches being available to Parties to assist in the implementation of their nationally determined contributions, in the context of

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<sup>4</sup> Id.

<sup>5</sup> See UNFCCC, Paris COP Decision, Decision 1/CP.21, 2015, para. 38(f) and Paris Agreement, Art. 6(4)

<sup>6</sup> UNFCCC, Paris COP Decision, Decision 1/CP.21, 2015, para. 38(f)

sustainable development and poverty eradication.”<sup>7</sup>The framework has potential as a means to channel climate finance in a manner that is measurable, reportable and verifiable. It also creates a potential basis for technology transfer and capacity-building, both for solutions related to mitigation and adaptation.<sup>8</sup>

- **Ensure transparency and good governance**
- **Ensure social and environmental integrity**
- **Ensure contribution to sustainable development**
- **Uphold human rights**



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<sup>7</sup> Paris Agreement, Art. 6(8-9)

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